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November 17, 2005

The Honorable Christopher Shays
Chairman
Subcommittee on National Security,
Emerging Threats, and International Relations
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am writing to request that the Subcommittee hold further hearings on the egregious misuse of Iraqi funds by the U.S.-controlled Coalition Provisional Authority (CPA) prior to the June 2004 transition of power. Since the June 21, 2005, hearing on U.S. mismanagement of the Development Fund for Iraq, new evidence has emerged that that an American contractor paid hundreds of thousands of dollars in bribes and kickbacks to at least two CPA officials and their spouses in exchange for up to \$3.5 million in fraudulent contracts. In addition, the Special Inspector General for Iraq Reconstruction has released three scathing audits that shed light on how these fraudulent activities could have occurred. The audit reports describe CPA's mismanagement of contracts and grants worth millions of dollars, which were paid for with Iraqi funds.

The Development Fund for Iraq (DFI) is the successor to the U.N.'s humanitarian Oil-for-Food Program. Unused Oil-for-Food funds, proceeds from the sale of Iraqi oil, repatriated funds, and foreign donations were deposited into the DFI. Under U.N. Security Council Resolution 1483, the United States was responsible for using these funds in a transparent manner to benefit the people of Iraq.¹

The first — and only — congressional hearing on the DFI was held by the Subcommittee on June 21, 2005. During this hearing, we learned that CPA failed to account for over \$8.8 billion in DFI funds disbursed to Iraqi government ministries. We also heard testimony that "CPA did not establish or implement sufficient managerial, financial, and contractual controls"

¹ United National Security Council, *Resolution 1483* (Mar. 20, 2003).

over tremendous amounts of DFI cash that had been shipped to Iraq from the Federal Reserve Bank of New York.²

Now there is new evidence of fraud and mismanagement involving the DFI. According to a criminal complaint unsealed in federal court this week, an American contractor named Philip Bloom paid at least two officials in the South-Central regional office of the CPA and their spouses at least \$200,000 a month in bribes and kickbacks in order to obtain reconstruction contracts worth over \$3 million.³ One of the CPA officials was the comptroller and financing officer for the region, who controlled at least \$82 million in contracting funds. According to the complaint, Mr. Bloom submitted bids from multiple companies he controlled or from nonexistent companies, and his CPA co-conspirators would steer the contract to one of his companies.⁴ The CPA officials kept the contract values below \$500,000 so that higher-level approval would not be required.

The Inspector General has also issued three audit reports that relate directly to the operations at the CPA's office for the South-Central Region of Iraq. The reports describe an environment of egregious mismanagement and malfeasance that allowed this alleged criminal behavior to occur.

The first report examined 74 DFI-funded grants worth \$20.8 million. The auditors found that CPA "personnel cannot account for more than \$20.5 million" in DFI funds and "overpaid eight grants in the amount of approximately \$2.6 million."⁵ According to the Inspector General, "The grant files contained no evidence indicating that the overpayments were ever returned or that the South-Central Region personnel ever asked for return of this money."⁶

The Inspector General also found that the regional office provided no oversight of the grant funds and was itself not subject to any oversight by CPA headquarters. According to the IG, "Without any progress reports, site-visit reports, or final reports from the grant recipients, we could not determine whether the work on projects was satisfactorily completed or even begun."⁷ And the IG found that "no one from outside the South-Central Region provided any oversight of the South-Central Region personnel actions in managing or monitoring these grants."⁸ The

² Subcommittee on National Security, Emerging Threats, and International Relations, *Hearings on The Development Fund for Iraq: U.S. Management of Iraq Oil Proceeds and Compliance with U.N. Security Council Resolution 1483* (June 21, 2005).

³ Affidavit of Special Agent in Charge Patrick McKenna Jr..

⁴ *Id.*

⁵ Special Inspector General for Iraq Reconstruction, *Management of Rapid Regional Response Program Grants in South-Central Iraq* (Oct. 25, 2005) at 9-10.

⁶ *Id.* at 10.

⁷ *Id.* at 7.

⁸ *Id.* at 8.

auditors also found that CPA officials deliberately manipulated the value of grant awards in order to circumvent approval procedures.⁹

Two other audit reports focused on specific DFI-funded projects. One report found that the regional office “did not properly manage” \$7.3 million used to establish and operate the Babylon Police Academy.¹⁰ In that case, the office “needlessly expended almost \$1.3 million in contract funds for duplicate construction, equipment not needed, not delivered, and overpriced; and inaccuracies not identified in contract documents.”¹¹ The other report found that “South-Central Region personnel needlessly disbursed more than \$1.8 million on the project to rehabilitate” the Karbala Library.¹² Of this amount, \$1.6 million was paid for work that was not performed.¹³ Both project-focused audits found a near total absence of oversight, intentional efforts to bypass internal controls, and “indications of potential fraud.”

These cases of incredible mismanagement and malfeasance appear to be symptomatic of more widespread CPA misconduct. In the absence of any oversight from CPA headquarters, other regional offices were also vulnerable to waste, fraud, and abuse. According to the Inspector General’s office, “as many as a dozen related cases had been referred to the Justice Department for possible prosecution.”¹⁴ As we learned at the previous hearing, the Inspector General found that CPA violated the U.N. Security Council mandate to use Iraqi funds in a transparent manner for the benefit of the Iraqi people.

The Congress has held 13 hearings to investigate allegations of fraud involving U.N. officials and the Oil for Food Program. Now that there is concrete evidence of fraud involving U.S. officials and the Development Fund for Iraq, we have an obligation not to avert our oversight. I therefore urge you to schedule further hearings on the Administration’s mismanagement of Iraqi funds.

I look forward to working with you on this important matter.

Sincerely,



Henry A. Waxman
Ranking Minority Member

⁹ *Id.* at 6.

¹⁰ Special Inspector General for Iraq Reconstruction, *Management of the Contracts and Grants Used to Construct and Operate the Babylon Police Academy* (Oct. 26, 2005) at i.

¹¹ *Id.* at i-ii.

¹² Special Inspector General for Iraq Reconstruction, *Management of the Contracts, Grants, and Micro-Purchases Used to Rehabilitate the Karbala Library* (Oct. 26, 2005) at ii.

¹³ *Id.* at 19.

¹⁴ *American Faces Charge of Graft for Work in Iraq*, New York Times (Nov. 17, 2005).